

# REPORT OF ACCOMPLISHMENTS 1995 – 1998

## “PROTECTING CALIFORNIA’S CONSUMERS”

### CDI’S EFFICIENCY AND EFFECTIVENESS

#### *Instituted the Consumer Ombudsman as Problem-solver for the Public*

The Ombudsman’s Office was originally established to help the average citizen navigate CDI. Today, the Ombudsman continues to serve the public in providing “2<sup>nd</sup> review” problem-solving for the public and public officials, such as legislators to whom the public often turns for assistance. Because of the key role the Ombudsman’s Office plays as intermediary between the public and CDI, the Ombudsman is often in a position to help identify and develop innovative ways of serving the public better.

The Ombudsman’s Office works to improve communications throughout CDI and coordinate the quality and accuracy of information being given to consumers. In many cases, multiple bureaus or divisions within CDI were working on the same case or issue with no knowledge of the other units’ efforts. To correct this deficiency, the Ombudsman implemented measures, including an *Intranet*, to facilitate information exchange throughout CDI’s various units. This effort allowed CDI to identify trends in certain issues and work across divisional lines to effect policy or procedural changes.

Since its inception, the Ombudsman’s Office has fielded thousands of inquiries, currently handling well over 100 cases and 600 inquiries each month.<sup>1</sup> The office is uniquely positioned to resolve even the most complex cases.

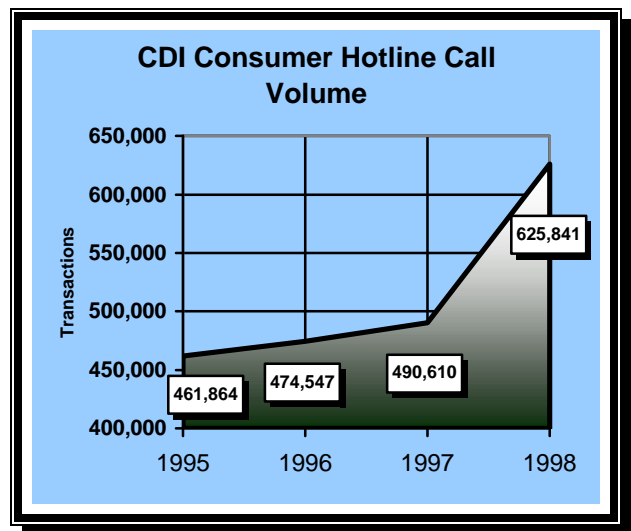
In addition to helping consumers settle their cases, the Ombudsman’s Office attempts to create an environment within CDI that is more customer-friendly. For example, the Ombudsman worked to consolidate public counters in CDI’s main offices to reduce the “run-around” consumers often experienced when seeking information. The Ombudsman also developed procedures for better serving customers who arrived at public counters without an appointment.

#### *Modernized CDI Consumer’s “Hotline”*

When consumers have a question about any insurance-related question, they can contact the CDI’s *Consumer Communications Bureau*. This bureau, also known as the *CDI Consumer Hotline*,<sup>2</sup> is responsible for handling incoming phone calls as well as written communications.

Since 1995 the volume of consumer transactions handled by the *Consumer Hotline* has been steadily increasing. For example, **in 1995 approximately 462,000 transactions were handled and in 1998 there were nearly 626,000 transactions.** Several factors could attribute to this increase, including the passage of a law that requires CDI’s phone number be printed on all insurance policies and growing consumer interest. *Exhibit 20* illustrates the increase in calls to the Consumer Hotline.

*Exhibit 20: Increasing Call Volume for the CDI Consumer Hotline*



<sup>1</sup> California Department of Insurance, Office of the Ombudsman, 1999.

<sup>2</sup> CDI’s Consumer Hotline (800) 927-HELP or (213) 897-8921

Source: CDI, Consumer Communications Bureau, memorandum dated April 13, 1999.  
Note: Workloads were not fully known during 1991-1994 due to incomplete tracking.

At the same time, as call volumes are steadily growing, the substance of the calls is becoming more complex. Customers who called during 1995 and 1998 sought information about issues such as Proposition 103, and assistance regarding natural disasters like earthquakes and fires. Efforts to provide the *Consumer Communications Bureau* with additional resources, such as implementing new systems and procedures, and increased staffing of the *Consumer Hotline* to deliver information and service to consumers more quickly, has raised the standards of customer service to its highest levels in the Department's history.<sup>3</sup>

Over the course of 1995 to 1998, the *Consumer Communications Bureau* implemented new procedures and systems, such as:<sup>4</sup>

- Increased *Consumer Hotline* staff to expand problem-solving resources for the public.
- Expanded the number of service choices available to consumers when they call the *Consumer Hotline*.
- Updated and increased the number of brochures and pamphlets available to consumers.
- Partnered with the State Controller's Office to assist consumers in obtaining Proposition 103 rebate funds that had been escheated to the state.
- Expanded the *Consumer Outreach Program* in 1997 to include senior citizen insurance abuse forums and education forums designed to address fraud scams in the aftermath of El Niño.
- Implemented the *Integrated Database System* and *Intelligence Gathering System*.

Because of new resources, systems, and processes, the *Consumer Hotline* is now better equipped to respond to the needs of California's consumers. Indeed, satisfaction surveys for 1998 indicate that 86% of all consumers who contact the CDI would recommend the Department to others, and 79% believe their problem was resolved satisfactorily.<sup>5</sup>

<sup>3</sup> Budget problems during 1996 resulted in the cutbacks of 89 staff positions, which affected the Consumer Services Division. In 1997, CDI sought and received funding from the Legislature to reverse the layoffs and hire 27 individuals within the Consumer Services Division to work directly with consumers.

<sup>4</sup> California Department of Insurance, Consumer Communications Bureau Management Staff, memorandum dated April 13, 1999.

<sup>5</sup> California Department of Insurance, Consumer Communications Bureau Management Staff, memorandum dated April 13, 1999.

## *Improved Administrative Responsiveness*

California has become a more competitive insurance market because, in part, CDI is more responsive than in the past, acting as a facilitator of competition in the market, rather than an impediment. This is what CDI refers to as "good government." To accomplish this, CDI has endeavored to be more efficient in the process of admitting insurers, reviewing forms and approving rates through the appropriate use of automated technology, instituting streamlined processes, and conducting operational efficiency reviews. In fact, this effort has resulted in tangible benefits to California consumers in terms of timesavings and reduced costs. Through enhanced competition and increased availability of insurance products in the California marketplace, consumers ultimately benefit from higher quality insurance products at lower rates.

### Cutting the "Red Tape"

Through initiatives to reduce much of the "red tape" commonly associated with government bureaucracies, CDI has made it easier for insurers to enter and compete in the California marketplace. During 1995 and 1996, CDI authorized 111 new companies to operate in California, compared with 71 during 1993 and 1994. During 1993 and 1994, 21 companies stopped doing business in California, compared to just 12 during 1995 and 1996. In total, 120 more companies have been brought into California since 1995, which left California for nine years following the passage of Proposition 103 in 1988.

### Thorough Policy Form and Rate Approval

State regulation of insurers normally requires policy form and rate approval.<sup>6</sup> These regulations are critically important because insurers normally dictate the terms and conditions of their insurance policies. The consumer, on the other hand, generally has less expertise in insurance matters and has less information about whether a policy is written fairly. CDI considers the fair and equitable treatment of the insured in the insurance transaction to be of utmost importance. For this reason, insurers must obtain approval for the products they seek to sell and, specifically, the policy forms that they use so CDI can ensure that policy provisions are reasonable and fair and do not contain major gaps in coverage that might be misunderstood by consumers.

<sup>6</sup> CDI's review of insurance rates is governed, in part, by the requirements in the California Insurance Code (CIC) Section 1861.05 and California Code of Regulations (CCR) Title 10, Subchapter 4.8, Article 1, Sections 2641.1 through 2644.23. California Insurance Code Section 1861.05 (a) states, in part: "No rate shall be approved or remain in effect which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter." CCR Title 10, Subchapter 4.8, Article 1, Sections 2641.1 through 2644.23 provide the definitions for "excessive" and "inadequate" as well as the various ratemaking formulae to be used by the CDI when reviewing an insurer's filed rate indications and selections. These are commonly referred to as the *Prior Approval Regulations*.

## Fairness in Rate Regulation

Another important role for CDI is rate regulation. When choosing a policy, the consumer is not usually in a position to determine the fairness of the premium for the policies they purchase. Rate regulation ensures that insurers' rates and premiums are adequate (sufficient to maintain solvency), not excessive, and not unfairly discriminatory.<sup>7</sup> However, CDI recognizes that an inefficient rate filing approval process can stifle creativity in the marketplace, dampening insurers' interest in responding to the public's need for insurance products.

Since 1995, beneficial changes in management direction and the introduction of automation have resulted in a rate and form review process that is noticeably streamlined.

## Faster Regulatory Processing

CDI has diligently sought to perform its duties more responsively and timely and has vastly improved its deference for its consumers, resulting in faster processing and turnaround times for policy approvals, rate filings, and applications review. For instance, in January 1995, there were 2,044 files awaiting review by CDI's Legal Branch, *Policy Approval Bureau*, some dating back as much as four years. By January 1, 1997, the backlog had been reduced to only 155 files, the oldest being only six months.<sup>8</sup> As *Exhibits 21 through 23* document, the number of days required to review forms and applications has dramatically declined even as the volume of transactions increased significantly.

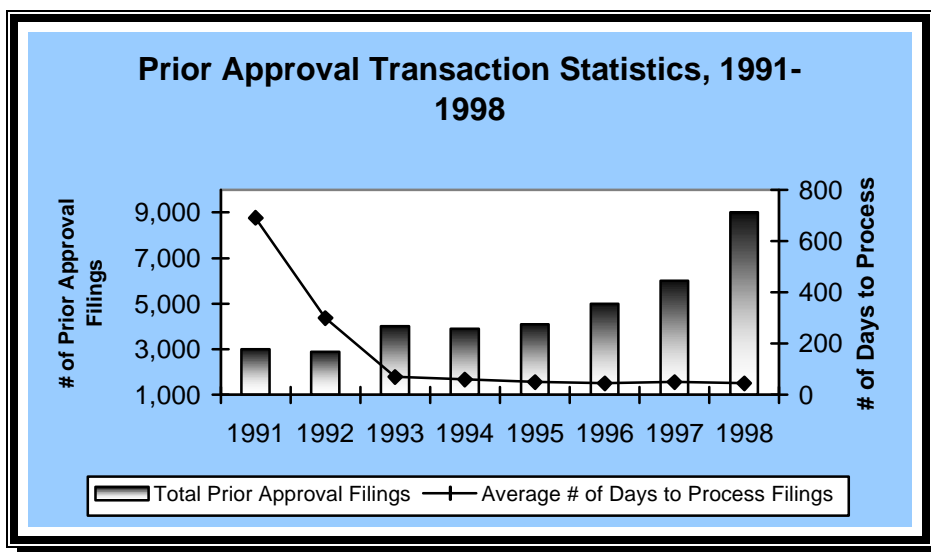
*Exhibit 21* summarizes statistics for "Prior Approvals,"<sup>9</sup> which refers to all filings handled by CDI's *Rate Regulation Division*. As noted, the average number of days to process prior approval filings decreased as the total number of filings increased steadily between 1994-1998. The *Rate Regulation Division* attributes this increased efficiency to more extensive and sophisticated use of information technology, along with a more experienced workforce and a different management emphasis. Other contributing factors

include increased experience of the insurers in submitting more complete rate applications, increased understanding of the filing process and clearer and more complete regulations in place directing the filing and review process.

Besides the improvements to the rate and form filing process, **rate filings received after 1994 have tended to be rate decreases**. Therefore, a higher percentage of the rate filings were non-controversial, requiring less negotiation with insurers delaying the approval process. Prior to 1995, CDI was immersed in the Proposition 103 rollback and rebate process and approval of rate filings was often linked to settlement of rollback issues.

Processing times for rate filing applications have been reduced from a high of two years to the current 30 to 90 days.

*Exhibit 21: Prior Approval Transaction Statistics, 1991-1998*



Source: California Department of Insurance, Rate Regulation Branch, 1999.

In 1994, there was a frequent problem of approving rate filings within the 60-day "deemer" window. That problem no longer exists. *Exhibits 22 and 23* document the efficiency trends of rate filings: rate increases, rate decreases and new program filings.

As *Exhibit 22* shows, the numbers of rate decrease filings from insurers doubled in 1996 and doubled again by 1998. Despite this significant workload increase between 1994 and 1998, CDI's *Rate Regulation Branch* was able to review each filing in less than 100 days.

*Exhibit 23* shows that CDI was able to maintain its efficiency in reviewing new program filings even while the workload volume grew significantly from 1995 to 1998.

<sup>7</sup> California Insurance Code Section 1861.05(a)

<sup>8</sup> California Department of Insurance, 1998

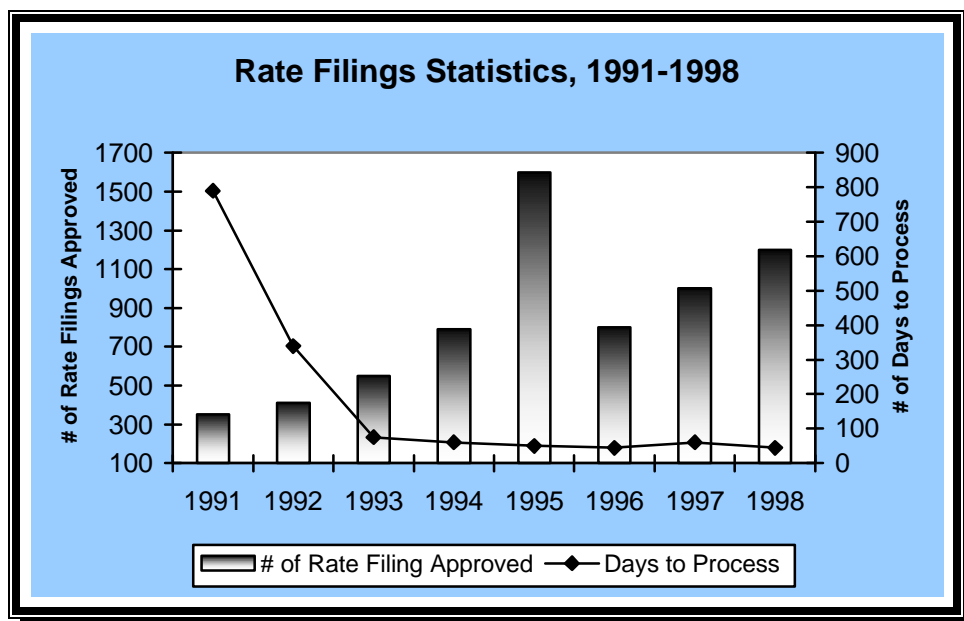
<sup>9</sup> California Insurance Code, Section 1861.05(b)

## Friendlier Business Environment for Insurers Seeking to do Business in California

At times, new programs are filed in conjunction with a *Certificate of Authority* application, but normally a new program filing represents a licensed insurer's proposal to enter a new market niche (i.e. a line or class of where the insurer has not previously been active). CDI evaluates new programs to verify that the proposed rates are reasonable for the coverage provided and are not excessive, inadequate or unfairly discriminatory.

Even as CDI's review and approval process was stream-

Exhibit 22: Rate Filing Statistics Demonstrating Improved Efficiency, 1991-98



Source: California Department of Insurance, Rate Regulation Branch, 1999.

lined, CDI worked to make sure that insurance providers clearly understood the steps involved in the regulatory process. In addition, CDI has worked to revamp the applications for companies that wish to transact insurance in California and improved the Department's licensing (Certificate of Authority) process.

**The revised application dramatically reduces the time required for review, from a typical two-year review period to a maximum review period of only 90 days for complete applications.** Streamlining the *Certificate of Authority* process and other improvements translate into increased competition in the California insurance marketplace. Indeed, during 1995 to 1998, CDI licensed over 133

new insurers and another 127 insurance-related companies.<sup>10</sup>

CDI's regulatory divisions and the Ombudsman's Office deserve the credit for helping to streamline the process through which insurers gain entry into the California market by providing better assistance to insurers as they entered this process. Examples of efforts to assist insurers include:

- **Producer licensing reform** – improved CDI's licensing function, introduction of the Interactive Voice Response (IVR) telephone system, *License Inquiry System* availability on CDI's Web site, hired an Assistant Ombudsman to assist the producer community, established an *Agent and Brokers Advisory Committee* (ABAC) and created a producer newsletter, *Communiqué*.

- **ALERT** – CDI is providing leadership in the *Accelerated Licensure Evaluation and Review Techniques* (ALERT) Project that seeks to streamline and standardize the company admissions process for all states through NAIC.

### Progressive and Forward Thinking

CDI does not believe that its role as regulator of insurers necessarily has to be adversarial. The Department has

worked to maintain good relationships with the industry and has proactively recruited several insurers into the California market including several large insurance companies. In some cases, the strategy actually had CDI "cold-calling" the CEO's of carriers not admitted in California. Several of them reported that they had never heard of a Department being so progressive.<sup>11</sup>

<sup>10</sup> California Department of Insurance, Rate Regulation Branch, May 18, 1999.

<sup>11</sup> California Department of Insurance, Office of the Ombudsman, March 11, 1999.

## Instituted New Automated Systems

CDI has pushed hard to introduce advanced information technologies (IT) that would enhance its ability to provide oversight of insurers and quality services to California's consumers. Through strategic IT planning, creating an IT infrastructure, and implementing best practices in managing the investment in IT, CDI has been able to empower employees to be more effective.

*Exhibit 24* summarizes some of the major accomplishments.

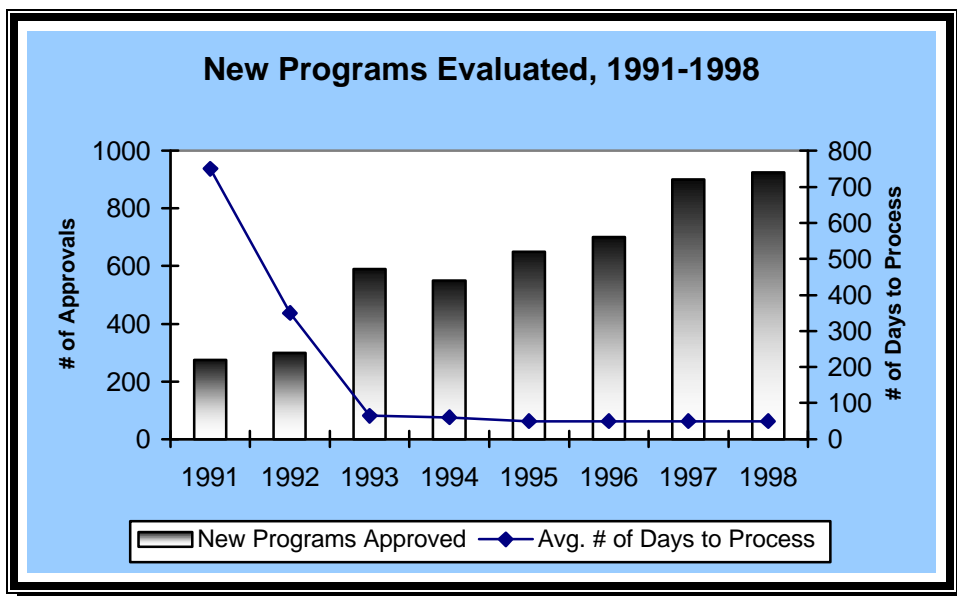
The new technology and systems for the management and

oversight of critical regulatory functions, including market conduct oversight, and insurer and agent case reviews are now being performed more efficiently and effectively than ever before. In addition to CDI's IT initiatives, the Department is working with NAIC to develop automated national systems to streamline the oversight and administration of insurance companies. Two projects being implemented in cooperation with NAIC are:<sup>12</sup>

- System for Electronic Rate and Form Filings (SERFF)<sup>13</sup>**  
 SERFF enables insurers to submit rate and form filings electronically to state reviewers, reducing the time and cost involved in making regulatory filings. State reviewers use SERFF to facilitate the management, analysis, disposition and storage of the filings. Both insurers and regulators benefit from the electronic communication that SERFF provides. SERFF is unique in that it is a joint, cooperative initiative between regulators and industry.
- Uniform Certificate of Authority Application**  
 Designed to allow insurers to file copies of the same application for admission in numerous states. While each state still performs its own independent review of each application, the need to file many different applications, in different formats, has

been eliminated for each state that accepts

*Exhibit 23: New Programs Evaluated, 1991-1998*



Source: California Department of Insurance, Rate Regulation Branch, 1999.

the Uniform Certificate.

## Comprehensive Reviews of CDI Operations

By 1995, CDI's management controls and operations had been seriously degraded. In June 1995, as CDI was in the process of closing its books for fiscal year 1994-95, the California Department of Finance was requested by the Commissioner to perform a priority audit of CDI's accounting systems and fiscal controls.

The Department of Finance's audit led to a major effort to stabilize CDI's fiscal condition and controls. As it turned out, many of the Department of Finance's findings had already been documented by at least two previous audits performed by the State Controller's Office in 1991 and 1993. In 1995 CDI proceeded to correct the pre-existing management control issues.

During this improvement effort, the State Auditor conducted an audit and identified a number of serious fiscal management problems within CDI. The vast majority of these audit findings were carryover issues from previous audits, which had essentially been ignored by previous administrations. All audit findings have since been addressed as a result of CDI's implementation of comprehensive fiscal controls and internal system checks. The steps implemented overcame the fiscal management problems encountered in 1995. *Exhibit 24* provides examples of the types of problems that existed in CDI, and what has been done to correct them. (For more examples, see Exhibits 27, 28, and 29 in the Appendix)

<sup>12</sup> National Association of Insurance Commissioners, *State Regulation 2000 Initiative* (<http://www.naic.org/consumer/sr2000/sr2000.htm>)

<sup>13</sup> National Association of Insurance Commissioners, *SERFF Virtual Brochure* ([http://www.serff.org/serff/brochure/virtual\\_brochure.htm](http://www.serff.org/serff/brochure/virtual_brochure.htm))

CDI has implemented sound fiscal controls to ensure adequate personnel timekeeping, accounts receivable, financial reporting, and cost allocation. These essential activities will help ensure the accountability and effective long-term financial management of CDI's activities.

**Exhibit 24: Major Administrative Accomplishments, 1995 - 1998**

THEN (1995)	→	NOW (1998)
<b>Information Technology</b>		
<ul style="list-style-type: none"> <li>No Departmental review or prioritization of IT resources</li> <li>Manual work processes</li> <li>No internet/intranet</li> </ul>	→	<ul style="list-style-type: none"> <li>IT Policy Committee provides Executive level prioritization.</li> <li>Automated efficiency</li> <li>CDI internet/intranet. Higher customer service and satisfaction.</li> </ul>
<b>Administration Systems</b>		
<ul style="list-style-type: none"> <li>Inaccurate and misallocated expenditures to programs.</li> <li>No standard billing system</li> </ul>	→	<ul style="list-style-type: none"> <li>Revamped cost allocation system.</li> <li>Implementation of ORACLE Financials</li> </ul>
<b>Human Resources</b>		
<ul style="list-style-type: none"> <li>CDI provided "free" loans to employees. For example, one employee received \$10,000 in salary advances with \$100 monthly payback.</li> <li>Employees were routinely overcompensated for working out-of-state as much as \$200 - \$500 per month per employee.</li> <li>Department did not have policy on discrimination in compliance with EEO regulations</li> </ul>	→	<ul style="list-style-type: none"> <li>Enforced strict adherence to State Administrative Manual (SAM) procedures.</li> <li>Enforced strict adherence to Department of Personnel (DPA) rules regarding out-of-state compensation.</li> <li>Policy and procedures addressing discrimination.</li> </ul>

Source: California Department of Insurance, Administration Branch, 1999

CDI has also worked to address the shortcomings identified by state oversight agencies regarding CDI's human resources functions. *Exhibit 29* in the Appendix summarizes how CDI's human resources-related problems were addressed.

CDI has also addressed the severe and chronic structural deficiencies in its fiscal management by initiating plans to strengthen the staffing, systems, and processes involved in fiscal operations. *Exhibits 30 through 32* in the Appendix summarize the corrective measures implemented in the *Business Services Management Bureau*, the *Accounting Office*, and the *Budget Office*.

CDI has also upgraded accounting and budgeting functions, summarized in *Exhibits 30 and 31*. In the accounting area, CDI has ensured the hiring and retention of qualified staff, the development of sound policies and procedures, the redesign of processes to enhance efficiency and accountability, and the implementation of automated tools reflecting the best practices currently available in financial man-

agement. These steps are summarized in the Appendix, *Exhibit 30*.

In addition to instituting major improvements within CDI's Administration Branch, CDI had independent assessments conducted on a number of its Divisions to ensure that the agency was protecting and serving consumers in the most efficient and effective manner. *Exhibit 25* summarizes the types of independent reviews of CDI's efficiency and effectiveness.

Through the recommendations developed during the course of these reviews, CDI was able to make numerous changes to its organization and operation. Of course, like any organization, CDI continues to improve its operational efficiency and effectiveness. During a performance audit of its

**Exhibit 25: Independent Review of CDI Operations**

Focus of Review	Review Completed
<b>Consumer Communication Bureau "Hotline" Implementation Project</b>	January 1996
<b>Strategic Assessment of CDI's field Operations</b>	July 1996
<b>Strategic Assessment of Legal Branch</b>	October 1996
<b>Field Operations Implementation Project</b>	January 1997
<b>Review of Fraud Branch</b>	November 1997
<b>Review of the Market Conduct Examination Process</b>	November 1997
<b>CDI's Strategic Plan</b>	October 1998
<b>Administrative Law Bureau: Organizational Review.</b>	January 1999

Source: KPMG Consulting, March 1999

operations in early 1997 the Bureau of State Audits' report found several areas in need of improvement.<sup>14</sup> Within one year, most of the State Auditor's recommendations had been completed, demonstrating management's desire for quick responsiveness and immediate corrections to legitimate problems.<sup>15</sup>

<sup>14</sup> California Bureau of State Audits, "Department of Insurance: Management of its Financial Affairs and Programs Needing Improvement," 1997.  
<sup>15</sup> California Department of Insurance, Audit Program Division, 1999.

## ***National Leadership in Insurance Regulatory Improvements***

CDI provides leadership on many national insurance regulation issues and participates in numerous committees and task forces of the NAIC, including:<sup>16</sup>

- **Special Committee on Regulatory Re-Engineering (EX)** – Provides information about state regulatory re-engineering initiatives and encourages states to replace outdated regulatory processes. Implements an awards program to recognize states for involvement in regulatory re-engineering initiatives. Evaluates the Internet and other means of electronic commerce to increase efficiency. Harmonizes state laws, regulations, and procedural requirements governing the insurance industry. Maintains and improves appropriate consumer protections.
- **Financial Condition Subcommittee (EX4)** – Provides a central forum and acts as coordinator of solvency-related considerations of the NAIC relating to accounting practices and procedures, blanks, valuation of securities, the *Insurance Regulatory Information System* (IRIS), financial analysis and solvency, zone examinations, and examiner training.
- **Blanks Task Force (EX4)** – Considers improvements and revisions to the various blanks and conforms these blanks to changes made in other areas of the NAIC to promote uniformity in reporting of financial information by insurers; explores the feasibility of electronic filing vs. hard copy filing of various parts of the annual statements to reduce unnecessary printing and filing costs incurred by insurance companies. Continues to monitor the quality of financial data filed by insurance companies. Develops proposals for implementing standard formats and filing requirements for all business types, reducing the reporting burden on insurance companies.
- **Examination Oversight Task Force (EX4)** – Monitors the financial examination process and identifies, investigates, and develops solutions to problems related to financial examinations. Monitors usage of automated examination tools, technology changes, and emerging issues.
- **Financial Database Re-Engineering Task Force (EX7)** – The FDR Task Force of

NAIC's *Information Services Subcommittee* provides oversight for the Financial Database Re-engineering Project, ensuring that resources of the NAIC are appropriately deployed in such a manner as to re-engineer financial database systems and business processes to:

1. Meet or exceed business requirements not currently being met.
  2. Improve the flexibility, efficiency, and cost-effectiveness of current systems.
  3. Reduce the cost of regulatory compliance in the area of financial reporting.
  4. Explore alternative methods of filing financial statements through the Internet.
- **NAIC/AAA/ASB/ABCD Joint Committee** – Provides a conduit between the regulatory actuaries of the NAIC, the American Academy of Actuaries, the Actuarial Standards Board, and the Actuarial Board for Counseling and Discipline.



<sup>16</sup> National Association of Insurance Commissioners, 1999 Committee List: Committee, Subcommittee, and Task Force Assignments, January 27, 1999.